



STATE BOARD OF LAND COMMISSIONERS

Dirk Kempthorne, Governor and President of the Board

Pete T. Cenarrusa, Secretary of State

Alan G. Lance, Attorney General

J. D. Williams, State Controller

Marilyn Howard, Superintendent of Public Instruction

Stanley F. Hamilton, Secretary to the Board

FINAL MINUTES

Regular Land Board Meeting

April 11, 2000 9:00 AM

The regular meeting of the Idaho State Board of Land Commissioners was held on Tuesday, April 11, 2000 in Boise, Idaho. The Honorable Dirk Kempthorne presided. The following members were present:

Honorable Secretary of State Pete T. Cenarrusa

Honorable Attorney General Alan G. Lance

Honorable State Controller J. D. Williams

Honorable Superintendent of Public Instruction Marilyn Howard

Secretary to the Board Stanley F. Hamilton

• CONSENT AGENDA

Director Hamilton provided background information on the Consent Agenda items.

A motion was made by State Controller Williams to approve the Consent Agenda in its entirety. Attorney General Lance seconded the motion. The motion carried on a vote of 5-0.

1. Official Transactions – approved

- A. Interest Rate Report
- B. Timber Sale Official Transactions for the period February 17, 2000 through March 16, 2000
- C. Bureau of Range Management and Surface Leasing Official Transactions for Cropland, Grazing, Cottage Site, Miscellaneous and Submerged Land Leases – February 2000
- D. Bureau of Real Estate, Land Sale Section – February 2000
- E. Bureau of Real Estate, Easement Section – February 2000

2. Timber Sales, Staffed by Ron Litz, Chief, Bureau of Forest Management – approved

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|--------------|--------------|-----------|
| A. CR-1-0291 | Lucky Thin | 1,900 MBF |
| B. CR-1-0308 | Upper Hunt | 4,000 MBF |
| C. CR-2-0186 | Naples Knob | 5,120 MBF |
| D. CR-2-0218 | Lookout Bugs | 1,115 MBF |
| E. CR-4-0692 | Swamp Meadow | 2,850 MBF |
| F. CR-4-0712 | Polar OSR | 2,315 MBF |

3. Minutes – approved

- A. Regular Land Board Meeting – March 14, 2000

4. Timber License Plate Fee Recommendations, By Betty Munis, Director, Idaho Forest Products Commission – approved

5. **FY-2001 Deferred Road Maintenance Projects**, *Staffed by Larry Morrison, Geotechnical Engineer – approved*
6. **Brownlee/Paddock Electrical Transmission Line – Request for Approval to Grant Easement to Idaho Power Company**, *Staffed by Don McNarie, Real Estate Specialist – approved*

- **REGULAR AGENDA**

7. **Director's Report**, *Presented by Stanley F. Hamilton, Director, Department of Lands*

Principal Fund Balances as of February 29, 2000:

✓ Public School	\$546,760,537
✓ Pooled	\$251,287,260
✓ Total	\$798,047,797

DISCUSSION: Director Hamilton stated that the Endowment Investment Board (EIB) is continuing to clear its portfolio as the transition is made from debt instruments into equity instruments. The report provided for October 31, 1999 shows the Permanent Fund at \$790 million. At that point \$154,000 in losses had been processed. As of December 31, 1999 the fund stood at \$798,800,000. By that time the department had dropped about \$8 million into the fund and the EIB continued to process losses.

As of February 29, 2000 the fund stood at \$798 million and the losses stood at \$10,925,000. During the period of time between October 31, 1999 and February 29, 2000 the department brought in about \$18 million thereby leaving a net of about \$10 million. The EIB continues to process losses and does not know when that processing will stop. The EIB is getting the portfolio in order after years of dealing with some of these debt instruments.

State Controller Williams requested that Director Hamilton ask EIB staff to provide a report to the board on losses. Last month losses were at \$6 million or so and that seemed reasonable. Maybe \$10 million is reasonable. Controller Williams stated that after July 1st the board would be relying heavily on the Endowment Investment Board for advice under the new investment plan for the Endowment Fund. \$11 million dollars in losses over this period of time is something Controller Williams would like to know more about.

Director Hamilton stated he would be glad to ask the EIB for a written report. He said he would ask that the EIB provide the report prior to the next Land Board meeting so board members have a chance to review the information. The EIB could then present the information to the Land Board at the May 9, 2000 regular Land Board meeting.

BOARD ACTION: No action was taken on this agenda item.

8. **Fiscal Year 2001 Timber Sales Plan**, *Presented by Winston Wiggins, Assistant Director, Forestry and Fire*

DEPARTMENT RECOMMENDATION: Direct the department to proceed with publication of the FY-2001 Timber Sales Plan with one correction. Four sales are indicated on the 2001 plan as being open to qualified or non-qualified bidders. The Mid Pulp sale on the Priest Lake Supervisory Area will go to qualified bidders only. As volume was calculated, the total volume of those sales slightly exceeded the five per cent allowed by the law. Without the Mid Pulp sale, sales would go down to the four per cent range. The department tries to not exceed the five per cent range.

DISCUSSION: Attorney General Lance asked how much of the Timber Sales Plan represented north Idaho sales. Mr. Wiggins stated approximately 80% of the Plan represents the Clearwater area and

north of the Clearwater area. Attorney General Lance advised the board the reason for his question is that last year the Washington Legislature directed their Attorney General to sue Idaho in terms of the Idaho Timber Stabilization Act. Some of these bids may invite Washington mills to bid.

State Controller Williams asked three questions. Mr. Wiggins responded as follows:

Question: What would the sale of 165 million board feet translate into at today's dollars?

Answer: At today's bid prices, and upon harvest, income to the endowments based on 165 million board feet would be somewhere in the \$50-\$55 million range. The harvest, however, could be one to three years in the future. Interest payments are factored in because the law provides that purchasers pay 6% interest from the date of sale to the date of harvest. For instance, if timber was purchased at \$300 and not harvested for one year, the purchaser would pay \$318 for the timber.

Question: The harvest total seems to be decreasing. Controller Williams thought the total would level off at about 170 million board feet. Now the total is about five million board feet below that figure.

Answer: Regarding harvest levels statewide, Mr. Wiggins believes that the department has bottomed out at 165 million board feet. The latest measurements accomplished last summer on the Clearwater area indicate that the department should be looking at a significant harvest increase in that area.

Question: The timber price right now seems to be doing a little better. Would it be possible to prepare two or three pending sales and keep those sales on the shelf? When the price is higher, try to move those sales at that time? Controller Williams stated he knows the department tries to work on a sustainable basis, but he is interested in becoming a little more market-driven on the sales.

Answer: To a certain extent, some pulp sales are held on the shelf. The Sales Plan identifies a couple of pulp sales. Pulp is a notoriously fickle market. It can rise and then just fall off the map virtually within twenty-four hours. Typically we will hold onto sales that have significant volumes of pulp and then try to move them when there is some pulp demand.

Sales have a shelf life. Timber grows; timber dies. You would not be able to prepare a timber sale ten years in advance, however, in most situations two to three years into the future is feasible.

Director Hamilton stated that another aspect of the Sales Plan is that some of the department's supervisory areas – areas with several sales – try to sell at points where the department has historically received good prices in the past.

Governor Kempthorne asked how the state's rate of harvest compares with the federal rate. Mr. Wiggins responded based on land holdings and timber growth rates, the state's harvest levels are considerably higher than the federal levels. However, the Forest Service has a different mission and different objectives in their management. The Forest Service also has different restrictions and regulations.

Governor Kempthorne asked what the trend line for the federal government is in terms of future harvests. Mr. Wiggins responded he does not know the federal government's future harvest plans. He feels the plans are dependent in a great measure on leadership changes in the next few years.

Director Hamilton offered some numbers provided by the Forest Service. In 1988 the federal government harvested somewhere between 750 and 800 million board feet per year. In 1998 it was about 220 million board feet. The trend is definitely down hill. On our ground, the million or so acres

that we have, we have maintained very steadily around 200 million board feet, as far as harvest is concerned. In 1999 it was about 250 million board feet, which includes pulp. The state's harvest volume has been pretty stable despite its sold volume variance.

BOARD ACTION: A motion was made by Attorney General Lance to accept the department's recommendation. Secretary of State Cenarrusa seconded the motion. The motion carried on a vote of 5-0.

9. Consider Reclassification of Fish and Game Grazing Leases G-5056, G-5057, G-5058 and G-5059, Presented by Tracy Behrens, Range Management Specialist

DEPARTMENT RECOMMENDATION: The department recommends that the endowment lands associated with the Andrus Wildlife Management Area (AWMA), and incorporated into leases G-5056, 5057, 5058 and 5059 currently held by the Idaho Department of Fish and Game (IDFG), be reclassified from General Management Zone-Range Grazing to Special Management Zone-Designated Wildlife Management Area and be reoffered as one miscellaneous lease with rent of \$16,000 per year, adjusted annually by CPI-U.

DISCUSSION: Attorney General Lance asked who owns the 120 acres in the middle of the parcel. Mr. Behrens responded an individual named Nixon owns 80 acres. An individual named Jackson owns the 40 acres along the highway. The 40-acre parcel is fenced separately and is not part of the allotment.

Attorney General Lance asked why this lease was not offered as a grazing lease. He said the department is getting \$1.33 per acre and he has concerns about the transaction. Mr. Behrens responded the department feels that for the management strategy used – with Fish and Game's objectives for wildlife and IDL's objectives for maximizing income through grazing – the best cooperative approach is to have the Fish and Game continue their lease. This decision was based partly on the fact that Fish and Game has \$72,000 in improvements on the property and partly to offer the lease at competitive bidding to a grazing operator who can work with both agencies objectives while also meeting his own livestock objectives. In addition, the grazing income IDL is receiving from this lease for the number of AUMs allocated provides \$10,600 per year. By reclassifying this to a different use other than grazing, Fish and Game is willing to increase the rent, which is about one and a half times the rent IDL would receive as a strict grazing lease.

Attorney General Lance asked who named the parcel the "Andrus Wildlife Hunting Area." He asked if it was named by the Department of Lands or by landowners or by the Land Board. Mr. Behrens referred the question to Tom Parker, Department of Fish and Game. Mr. Parker stated that the Fish and Game Commission determines the names of wildlife management areas. Attorney General Lance asked Mr. Parker if the Department of Fish and Game has given the name "Andrus Wildlife Management Area" to the state endowment land. Mr. Parker stated the name was designated for the Department of Fish and Game's private property.

Mr. Behrens commented the name for the wildlife management area has been applied to the lands owned by the Department of Fish and Game. Because of intermixed ownership and by default, the general public may think of the endowment lands as carrying the same name. However, there has never been any official action by the Land Board to officially incorporate the endowment lands within the wildlife management area nor to apply that name legally to those endowment lands.

Through the department's reclassification suggestion of designating this area as a wildlife management area it comes closer to making the name an official Land Board declaration that these lands are part of the wildlife management area. However, the lands are still endowment lands and are still being managed to maximize revenues to the endowments. The department will still require that grazing take place on the allotment.

Attorney General Lance expressed concern about the transaction. He said the department is terminating a lease that extends until 2005. The department is receiving about \$1.33 per acre per year, which is about \$191 for a 147-acre parcel. Fish and Game is in the middle of this transaction managing state endowment lands and the board has a responsibility to maximize the return. Attorney General Lance feels a hunting area is being established with endowment lands. He feels the property should be opened for competitive bidding rather than being given to Fish and Game at a discount and letting them manage it for us.

Controller Williams asked if this property is basically the Hillman Ranch area that was obtained by Fish and Game through the Mellon Foundation a few years ago. Mr. Behrens stated that is correct. Controller Williams recalled that Governor Andrus was very heavily involved in that transaction so it would be appropriate that the property be named after him. Controller Williams commented that the state has a lot of ground that is very unique and that is difficult to manage because of wildlife values. The state has done a good job of balancing the income and these values, which are very important to the people of Idaho. In looking at this situation, it looks like the higher AUM rate would give the state more income. It seems like this is a way to solve a potential problem where more money is made while the area is also protected.

For clarification, Governor Kempthorne asked Attorney General Lance if he agreed that this transaction would make more money for the endowment. Attorney General Lance said that what the department is doing is getting 87 cents per acre on an average. That figure will go up to \$1.33 per acre per year. The argument could be made that there is more money but a lease is being terminated five years in advance. Basically the state is making 50 cents or so more an acre but there is still something wrong. Attorney General Lance wonders what ranchers would be willing to give thereby cutting out the middleman, Fish and Game.

Superintendent Howard stated that when she read the background for this agenda item she saw that for the last seven years a lot of collaboration has occurred through cooperative work between the Department of Lands, BLM, the Forest Service and a rancher. All the parties are trying to manage a large block of land in a way that would maintain habitat and in a very managed way would increase the amount of grazing. Superintendent Howard commented that when she sees this kind of cooperation she compares it to other actions going on now where there is a lot of discussion of the importance in the west of people working together for the common end. She stated she does not have the same sense of discomfort as expressed by Attorney General Lance because she sees an increase in revenue plus a managed plan with people working in a collaborative way.

Director Hamilton stated that if the department or the board offered these leases at auction more than the current AUM rate would be received. The policy issue is that the board has never authorized the department to do that. The department has never put any kind of a grazing lease, no matter how big a block, up for public auction without using the standard AUM rate. It has always been at the standard AUM rate. Although Director Hamilton understands the Attorney General's opinion, it would represent a fairly significant break in the policy of the board and the department needs clear direction to do that.

Controller Williams stated about ten years ago the board spent a lot of time on grazing rates and tried to come up with formulas, policies and procedures that were fair and within market. To revisit that issue now would be a Herculean task and would take an incredible amount of effort and probably would not increase the revenues enough to justify the effort.

Controller Williams feels the board has to recognize that some endowment lands have a very high value for other than grazing. If the state only emphasizes grazing on those lands, maybe to the detriment of the other values, it would be very difficult for a lot of groups. The decisions have to be balanced.

Controller Williams feels this is a good Exhibit A on how to balance competing uses for a very spectacular and beautiful area that really should be protected. Maybe the long-term goal would be to try to figure a way on a market-value basis to get this property to Fish and Game so it is protected forever. Controller Williams stated this is a good way to resolve the issue. To revisit the grazing issue and bidding areas would be very difficult.

Attorney General Lance stated this property is being turned into a miscellaneous lease. The department is taking it from a grazing lease and making it into a miscellaneous lease without going through the bidding process. The grazing lease issue does not have anything to do with this. The department is trading these leases into miscellaneous-type leases. The point is that we are supposed to go through some public bidding process to get from A to B to C.

Mr. Behrens stated that by going through this reclassification, and by offering a miscellaneous lease, the lease is still available for anyone to apply, just like a grazing lease. If someone is interested in applying for a miscellaneous lease, the department would accept the application and would process it as a normal grazing lease application. The department's idea with this transaction is to consolidate all the lands into one lease for ease of management. The ultimate goal would be to work with Fish and Game to offer, as a grazing package, one large allotment. Therefore a livestock operator looking for the grazing privileges would be bidding on one large grazing management strategy that was cooperatively agreed to between the two agencies. The department feels this is a more efficient way to approach the management.

Attorney General Lance stated he does not agree. He feels the department is using the endowment lands to subsidize Fish and Game and hunting. He does not feel endowment lands should be used to subsidize hunting. If Fish and Game wants to own the land and manage it, he feels they should buy it at fair market value or they should lease it on a miscellaneous lease at fair market value.

Secretary of State Cenarrusa said this transaction brings up questions in his mind. He stated he is not ready to vote on it and he requested that the item be deferred for one month.

BOARD ACTION: A motion was made by Secretary of State Cenarrusa to defer this agenda item for one month. State Controller Williams seconded the motion. The motion carried on a vote of 5-0.

10. Gooding TB Hospital Surplus Sale – Request to Sell 4.21 Acres of General Fund Property to the City of Gooding, Presented by Perry A. Whittaker, Chief, Bureau of Real Estate

DEPARTMENT RECOMMENDATION: Department staff recommends approval to sell the property to the City of Gooding assuming the board and City can reach agreement on price and terms of sale. Sale processing fees, including certificate fee, deed fee, advertising cost and appraisal fee, to be paid by the City.

DISCUSSION: None.

BOARD ACTION: This agenda item was deferred for one month.

11. Wolford/State of Idaho Land Exchange – Request for Final Approval to Complete a State/Private Land Exchange, Presented by Perry A. Whittaker, Chief, Bureau of Real Estate

DEPARTMENT RECOMMENDATION: Department staff recommends Land Board approval to complete this exchange.

DISCUSSION: Controller Williams asked if “administrative purposes” includes harvesting timber on state adjacent property. Can timber be delivered across the easement? Mr. Whittaker stated this exchange would allow the state to do everything needed to manage the property.

BOARD ACTION: A motion was made by Attorney General Lance to accept the department's recommendation. Secretary of State Cenarrusa seconded the motion. The motion carried on a vote of 5-0.

12. Conceptual Approval to Enter RFP Process – Sage Junction (North of Idaho Falls),
Presented by Jude Gary, Commercial Leasing Specialist

DEPARTMENT RECOMMENDATION: Staff requests conceptual approval by the board to start the Request for Proposal (RFP) process. With the board's conceptual approval, the department will conduct further investigations of the site. These investigations would include: locating survey monuments, review existing Level I Environmental Study, review existing Archeological Survey, identification of adjoining property owners, zoning requirements, check water availability, updated traffic volume, average space requirements for truck stop area, power, telephone and fiber optics services, cost of development for truck stop and auxiliary services. Staff would also draft an RFP with counsel's help. This item would then be brought back for final board approval to enter into the RFP process. After final approval we would meet with County Commissioners and hold a public hearing.

DISCUSSION: Governor Kempthorne asked why the state is conducting the feasibility study. Mr. Gary stated that all of the data currently exists. The information would be pulled together and reviewed within the next thirty days to make sure the project makes sense. There should be minimal additional cost.

State Controller Williams stated based on some of the information provided, he feels there is a great amount of interest in this project – particularly by people in that area. He feels this is a tremendous idea from the viewpoint that it allows the board the leverage with the endowment lands to become partners while looking at various options.

Controller Williams commented that if the board is going to increase the funding of public schools this is one way to leverage existing assets with commercial developments. The effort will take a tremendous amount of education and a lot of information getting out. This is just a way to start it.

Controller Williams suggested Mr. Gary might consider visiting with the county commissioners of the affected counties this month so that they are aware of this project. The idea is to come up with a very fine product because this could become the start of a major program that really would augment the funding of public schools.

Attorney General Lance concurred with Controller Williams. He commented if he was the owner of the property he would want to make sure the RFP talked about a percentage of the gross versus just a flat annual rental payment. If traffic increases, or the cost of fuels goes up or whatever, the property owner, the state in this case, is cut in on the action.

Controller Williams commented the state has some very valuable properties. It may be time to consider a twenty-year plan. How are we going to do this? How can we best leverage these assets to get the income stream to the schools increased? Controller Williams suggested that staff should start to come up with ideas on this topic for the board. The board needs to begin looking long term at how it is going to accomplish this task. Some other states, particularly Washington, have been very effective at doing this.

Secretary of State Cenarrusa feels this is an exceptional idea. He asked about other state lands. When would those other lands be considered? When can the state get the maximum amount for those lands? He feels the department should be looking at these financial opportunities.

Director Hamilton commented that this is an excellent project but it will take time to accomplish. He asked the board what the limitations on staff are as far as creative ideas are concerned. Where are the places staff should not go? What are the things that staff should not do?

Governor Kempthorne would like the department to be creative and to not have too many parameters. The ideas may include new methods of operating, not just looking at parcels. Controller Williams concurred. He suggested that the department put together a plan showing we are here, this is where we want to go and this is how we will get there through a 20-year cycle. Controller Williams feels if this effort is handled correctly, there will be a tremendous increase to public school funding in the twenty-year period.

BOARD ACTION: A motion was made by State Controller Williams to accept the department's recommendation. Attorney General Lance seconded the motion. The motion carried on a vote of 5-0.

- **INFORMATION AGENDA**

Director Hamilton briefed the Land Board on the Information Agenda items. No Land Board action is required on the Information Agenda.

13. Timber Sale Activity Report

14. Marsing Job Corps Property Sale

- A motion was made by Attorney General Lance to resolve into Executive Session at 10:25 a.m. State Controller Williams seconded the motion. The motion carried on a vote of 5-0.

- **EXECUTIVE SESSION**

Pursuant to Idaho Code § 67-2345, Executive Session was held.

At 10:55 a.m. the board resolved back into Regular Session. Governor Kempthorne emphasized that no decisions were made during the Executive Session.

There being no further business before the board, the meeting adjourned at 10:55 a.m.

IDAHO STATE BOARD OF LAND COMMISSIONERS

/s/

President, State Board of Land Commissioners and
Governor of the State of Idaho

/s/

Pete T. Cenarrusa
Secretary of State

/s/

Stanley F. Hamilton
Director

The above-listed final minutes were approved by the State Board of Land Commissioners at the May 9, 2000 regular Land Board meeting.